

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF EATON RAPIDS	County EATON
Audit Date 6/30/05	Opinion Date 10/14/05	Date Accountant Report Submitted to State: 12/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE RD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature <i>Layton & Richardson, P.C.</i>		Date 12/14/05	

CITY OF EATON RAPIDS, MICHIGAN
EATON COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND
INDEPENDENT AUDITORS' REPORT

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Eaton Rapids, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and each major special revenue fund, for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2005 on our consideration of the City of Eaton Rapids, Michigan's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eaton Rapids, Michigan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Eaton Rapids, Michigan. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Certified Public Accountants

East Lansing, Michigan
October 14, 2005

City of Eaton Rapids, Michigan

Management's Discussion and Analysis

The City of Eaton Rapids's discussion and analysis is a narrative overview of the City's financial activities for the year ended June 30, 2005. The information presented here should be read in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the twelve month period ended June 30, 2005:

- State shared revenues, our second largest General Fund revenue source, continue to decline this fiscal year. This reduction represents a continued trend over the past several years and amounts to a reduction since the States 2000/01 fiscal year of 45% in the Statutory portion of the payments. While the Constitutional portion of the payments remains stable, the net impact on the total (Constitutional plus Statutory) amounts to a reduction of 15.2%. Given the current State budgetary trends, we do not anticipate that the reductions in the Statutory portion of our payments will reverse in the short run (two to three years). There are on-going discussions on the restructuring of State revenues for all local government units, however there is no clear timetable for how or when the Governor and the legislature will address this issue. What appears to be clear is that the structural inequities incorporated into the implementing legislation for the Headley Amendment created a long term problem for most if not all cities, including the City of Eaton Rapids.
- Interest revenues from investments remain lower than anticipated. Projected interest rates had been anticipated to improve slightly, however due to the continued slow growth of the Michigan economy, these gains have not yet occurred.
- The property tax base continues growing on an incremental basis due to generally favorable housing conditions in the southeastern portion of Eaton County and generally moderate housing costs when compared with other, more developed areas surrounding the greater Lansing residential market. We also continue to experience re-investment and expansion by a number of our local industrial and commercial businesses. The net effect is that General Fund tax revenues are anticipated to continue to increase at a steady and predictable rate.
- Total net assets related to the City's governmental activities decreased by approximately \$38,708.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Eaton Rapids on a government-wide basis. They are designed to present a longer-term view of the City's finances. These statements measure of the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

Reporting the City of Eaton Rapids as a Whole

One of the most important questions asked about the City of Eaton Rapids's finances is, "Is the City of Eaton Rapids as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City of Eaton Rapids as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City of Eaton Rapids's *net assets* and changes in them. You can think of the City of Eaton Rapids's net assets – the difference between assets and liabilities – as one way to measure the City of Eaton Rapids's financial health, or *financial position*. Over time, *increases* or *decreases* in the City of Eaton Rapids's net assets are one indicator or whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City of Eaton Rapids's captured property tax base to assess the *overall health* of the City of Eaton Rapids.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

Reporting the City of Eaton Rapid's Most Significant Funds

The fund financial statements provide detailed information about the City of Eaton Rapid's funds. The City of Eaton Rapid's funds utilize the *governmental* accounting approach.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.
- **Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets and liabilities agree.
- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Eaton Rapid's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.
- **Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.
- **Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund. The combining statements in connection with non-major governmental funds are presented immediately following the notes to financial statements.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

The City of Eaton Rapids as a Whole

Statement of Net Assets – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Eaton Rapids' assets exceeded total liabilities by \$17,268,362 at the close of June 30, 2005. The following table shows, in a condensed format, the net assets as of June 30, 2005. Comparable date for June 30, 2004 is not presented in this report. Fiscal year ended June 30, 2004 audit represented only a six month period.

City of Eaton Rapids' Net Assets June 30, 2005

		Governmental Activities		Business-type Activities		Component Units		Total
Current assets	\$	2,111,185	\$	2,148,070	\$	3,368,486	\$	7,627,741
Noncurrent assets								
Restricted assets				1,785,935				1,785,935
Other				21,459				21,459
Capital assets		5,017,802		12,275,150		1,108,314		18,401,266
Total assets	\$	7,128,987	\$	16,230,614	\$	4,476,800	\$	27,836,401
Current liabilities	\$	435,196	\$	1,134,637	\$	122,789	\$	1,692,622
Long-term liabilities		3,219,770		5,309,988		345,659		8,875,417
Total liabilities		3,654,966		6,444,625		468,448		10,568,039
Net assets								
Invested in capital assets-								
net of related debt		17,902		6,799,090		349,964		7,166,956
Restricted		285,379		1,391,896		1,931,623		3,608,898
Unrestricted		3,170,740		1,595,003		1,726,765		6,492,508
Total net assets	\$	3,474,021	\$	9,785,989	\$	4,008,352	\$	17,268,362

Approximately 1 % of the City's net assets of governmental activities reflect its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$3,170,740 represent the amount that may be used to meet the City's ongoing obligations.

Changes in Net Assets – The City's total net assets increased by \$1,000,334 during the fiscal year. Governmental activities net assets decreased by \$38,708. As noted earlier, there is no previous year comparable data available for the government-wide statements issued in accordance with GASB Statement # 34. Comparable data will be provided in the June 30, 2006 financial statements.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

City of Eaton Rapids Changes in Net Assets For fiscal year ended June 30, 2005

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue				
Program revenue				
Charges for services	\$ 333,293	\$ 8,194,852	\$	\$ 8,528,145
Operating grants and contributions	367,100			367,100
Capital grants and contributions	10,000			10,000
General revenue				
Property taxes	989,194	12,159	976,986	1,978,339
Federal grant		423,645		423,645
Sales Tax	482,522			482,522
Miscellaneous	90,347	44,387	3,415	138,149
Restricted investment earnings		36,496		36,496
Unrestricted investment earnings	26,498	30,759	43,282	100,539
Transfers	977,021			977,021
Total revenues	3,275,975	8,742,298	1,023,683	13,041,956
Program Expenses				
General government	561,690			561,690
Public safety	819,921			819,921
Public works	547,752	6,844,229		7,391,981
Community Development & Enrichment	215,319			215,319
Highways and streets	317,836			317,836
Culture and recreation	98,241			98,241
Other	346,532		229,927	576,459
Interest on long-term debt	159,068	144,697	31,098	334,863
Depreciation	248,324	499,967		748,291
Transfers		927,021	50,000	977,021
Total program expenses	3,314,683	8,415,914	311,025	12,041,622
Increase in net assets	(38,708)	326,384	712,658	1,000,334
Net assets – January 1	\$ 3,493,959	\$ 8,465,073	\$ 3,295,694	\$ 15,254,726
Prior Period Adjustments	18,770	994,532		1,013,302
Net assets – June 30	\$ 3,474,021	\$ 9,785,989	\$ 4,008,352	\$ 17,268,362

Governmental Activities – Program revenues, which include user fees and charges and operating grants and contributions, represent 22% of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and State revenue sharing.

Business-type Activities – Business-type activities increased the City of Eaton Rapids's net assets by \$326,384, all of which was in the Utility Fund. The City provides water to residents from a field of municipal water wells. Sewage treatment is provided through a City owned and operated treatment plant. Electrical power is purchased on a wholesale basis and sold at retail to residential, commercial and industrial customers within the City and on a limited basis, to customers outside the municipal boundaries of the City. Historically, revenues generated from electrical operations within the Utility Fund have served to supplement any shortfalls in the Water or Sewer operations. This continues to be the case in the current fiscal year. Rate studies are currently under way to review both Water and Sewer operations and to determine if, and to what extent, rate increase may be necessary. More specifically, at the time rates were last increased for the Sewer Department, the City also undertook significant revisions to the underlying Sewer Ordinance in order to provide for the implementation of industrial pre-treatment requirements to meet the sewage discharge needs of certain industrial customers as well as to comply with requirements imposed by the Michigan Department of Environmental Quality.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

It is now believed that an un-anticipated consequence of the implementation of these new industrial pre-treatment ordinance revisions was to also reduce, on a long term basis, the total volume of sewage being treated at the plant from the industrial customers who were most significantly affected by the new ordinance provisions. This reduction in industrial waste will have positive long term consequences for the environment as well as represent a savings for the industrial customers. However, it has also resulted in the understating of the anticipated revenue stream for the Sewer Department, resulting in revenue shortfalls based on the assumptions that were used to establish the sewer rates. We anticipate that the rate study currently under way will accurately account and correct for this recent trend. At the present time we are also nearing completion of an electrical rate study. The City entered into a new wholesale electrical contract in 2002 but did not adjust rates at that time to reflect the increase in the cost of purchasing the wholesale power that we experienced at that time. Since that time, industry wide changes in the way power is moved from one location to another via the electrical transmission grid has undergone significant and costly changes both within Michigan and across the region of the country through which the electrical energy we purchase must be moved. A component of our current electrical rate structure, referred to as the P.P.C.A., allows the City to recover the increased costs associated with the both the wholesale power purchases as well as the higher transmission rates. It should be noted that the adequacy of electric department revenue is not only focus of the rate study, but rather the utilization of the P.P.C.A. as a safety valve to an extent not previously anticipated creates equity issue for customers who utilize significant amounts of power. In addition, assumptions built into the current electrical rates relating to fixed costs, funding for projected capital projects and City Charter requirements to maintain specific reserve margins also lead us to review and current rates in order to insure the long term stability of this important city utility. It is anticipated that this study will be completed in the near future and that implementation of rate adjustments would most likely occur with the start of the 2006/07 fiscal year.

Financial Analysis of the City's Funds

Our analysis of the City's major funds begins on the pages following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing. The City of Eaton Rapids' major funds for 2005/2006 are the General Fund, the Major Streets Fund, the Local Streets Fund, the Parks and Recreation Fund, and the Building Authority Fund, and the Utility Fund.

The General Fund accounts for most of the City's governmental services. General administrative, police, and fire services account for over 42% of the total General Fund expenditures. The reduction in State shared revenues and investment income resulted in the City cutting expenses in preparation for this budget and throughout the year. While administration has stopped short of cutting personnel within the General Fund departments, a number of positions have been allowed to remain vacant, including positions in the Public Works Department and general administrative positions. We continue to monitor the fees charged for many services, particularly those in the Police Department to keep current with surrounding departments and maximize revenue potential.

In reviewing activity in other Funds, we have also seen a measure of stability in the Building Department Fund with the implementation of a broader range of inspection services and the fees associated with them. In past years, this Fund had to be supplemented with General Fund monies at the end of the year, however we have now reached the point at which it is self sufficient. The Major and Local Street Funds continue to generate sufficient revenue to allow for the necessary street maintenance as well as on-going repair programs. We are also eligible and have tapped into additional monies for street and bridge reconstruction projects most recently completing a replacement of the State Street bridge decking. Plans are also underway for the rebuilding of a portion of State Street in 2007.

Major infrastructure projects in the Utility fund include the recent energizing of a new electrical sub station at the north end of the City, the completion of work on our second new water well in four years and the addition of new electrical circuits into the Island City Industrial Park.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (concluded)

In September of 2004 the City of Eaton Rapids sold general obligation bonds in the amount of \$ 9,545,000 that are currently being used for improvements for the City's wastewater plant and the collection system. The treatment plant and the mechanical equipment and systems needed to make it function properly had not seen any upgrades for twenty five years. In addition new treatment processes that are more effective and less costly to operate are being incorporated into the upgraded facilities. The collection system of pipes that runs throughout the City is also in disrepair and as a result ground water enters the collection system resulting in significantly higher volumes of water being treated at the wastewater plant than should normally be the case. The intent of this project, which is being implemented through the State Revolving Fund, is to address the majority of these deficiencies. To make the principal and interest payments on the bonds, voters of the City approved extra voted millage which began in December, 2004 to help pay for the costs of these improvements.

General Fund Budgetary Highlights

As of June 30, 2005 the amount received was \$3,210,183. This is shown as new debt for the City in the Utility Fund. Over the course of the year, the City monitors and amends the budget to take into account unanticipated events during the year. At year end, actual General Fund revenues were only \$83,515 more than the original and final budget. Expenditures were originally and amended for budgeting to exceed revenues and net operating transfers by \$200,400. The actual was \$151,487 expenditures over revenues.

Capital Assets and Debt Administration

At the end of the fiscal year 2005, the City had approximately \$18,401,266 invested in land, land improvements, buildings, water and sewer lines, vehicles and equipment, an increase of \$. The two Utility fund projects represented most of increase in the capital assets for year ended June 30, 2005. The costs incurred during the year for the electrical substation and waterwell projects was \$1,263,674 and the improvements to the waste water treatment plant was \$3,941,977. The Community Development Block Grant monies is helping with the cost for the electrical substation and waterwell. The general obligation bonds sold in September, 2004 is helping to pay for the costs associated with the wastewater treatment plant. See Note 6 to the basic financial statements for additional information.

Debt reported in Note 7 to these financial statements is related to the construction and maintenance of the above-mentioned assets with the exception of CDGG loan.

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2005/2006 fiscal year included the growth of the property tax base due to residential growth and some industrial expansion projects. The City continues to levy the maximum tax rate allowable under the City Charter and within the limitations imposed by both the Headley Amendment and Proposal A. Because there is uncertainty in the continued availability State revenues as well as concerns about new and increased fees imposed by State departments on the various services they mandate for local governments, we continue to watch and monitor these areas very carefully. Efforts to convince state leaders to allow local governments the ability to develop new revenue sources to counteract the limiting factors that restrict the growth on existing property to the rate of inflation, have to date been unsuccessful. As a result, the City will continue to watch its budget closely.

Despite these concerns, the City continues to operate with an efficient and effective labor force. We expect to continue to provide annual wage increases despite the pressure of increases in medical and other personnel related costs. In addition, the funding of retiree health care is a growing concern and one that will need to re-examined in the near future to insure that we have adequately addressed and anticipated the future budgetary impact of providing this benefit.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets				
Cash	\$ 1,712,388	\$ 446,601	\$ 2,158,989	\$ 3,340,588
Investments	79,461		79,461	
Receivables				
Accounts (net of allowance for bad debt)		775,350	775,350	750
Note receivable		913	913	
Prepaid expenses				
Taxes	27,268		27,268	
Due from				
Other funds	29,287	12,159	41,446	
State	262,207	557,541	819,748	
Other	574		574	
Inventory		355,506	355,506	
Prepaid expenses				27,148
Restricted assets				
Cash and investments		1,785,935	1,785,935	
Noncurrent Assets				
Note receivable		21,459	21,459	
Capital assets (net of accumulated depreciation)	<u>5,017,802</u>	<u>12,275,150</u>	<u>17,292,952</u>	<u>1,108,314</u>
 TOTAL ASSETS	 \$ <u>7,128,987</u>	 \$ <u>16,230,614</u>	 \$ <u>23,359,601</u>	 \$ <u>4,476,800</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current liabilities				
Payables				
Accounts	\$ 187,507	\$ 737,498	\$ 925,005	\$ 9,619
Payroll and payroll taxes	52,007	36,495	88,502	
Due to State		9,950	9,950	
Due to other funds	751		751	10,000
Accrued sick and vacation pay	17,443	7,497	24,940	
Accrued interest	52,488	30,248	82,736	2,163
Deposits payable		116,890	116,890	
Bonds and notes payable	125,000	203,556	328,556	101,007
Noncurrent liabilities				
Bonds and notes payable	3,150,000	5,272,504	8,422,504	345,659
Accrued sick and vacation pay	69,770	29,987	99,757	
TOTAL LIABILITIES	<u>3,654,966</u>	<u>6,444,625</u>	<u>10,099,591</u>	<u>468,448</u>
NET ASSETS				
Invested in capital assets, net of related debt	17,902	6,799,090	6,816,992	349,964
Restricted for				
Economic development		407,830	407,830	
Bond retirement		245,719	245,719	
Electric utility		485,403	485,403	
Sewer utility		233,417	233,417	
Water utility		19,527	19,527	
TIFA I				277,049
TIFA II				270,508
State of Michigan				865,944
Cemetery perpetual care	122,828		122,828	
Debt service				518,122
Island project	20,198		20,198	
Fire department	142,353		142,353	
Unrestricted	<u>3,170,740</u>	<u>1,595,003</u>	<u>4,765,743</u>	<u>1,726,765</u>
TOTAL NET ASSETS	<u>3,474,021</u>	<u>9,785,989</u>	<u>13,260,010</u>	<u>4,008,352</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,128,987</u>	<u>\$ 16,230,614</u>	<u>\$ 23,359,601</u>	<u>\$ 4,476,800</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Primary Government			
Governmental activities			
General government	\$ 561,690	\$ 55,441	\$
Public safety	819,921	31,967	
Public works	547,752	79,634	
Community development and enrichment	215,319		
Highways and streets	317,836		367,100
Culture and recreation	98,241	42,407	
Other	346,532	123,844	
Interest on long-term debt	159,068		
Depreciation	248,324		
Total Governmental Activities	<u>3,314,683</u>	<u>333,293</u>	<u>367,100</u>
Business-Type Activities			
Utility fund	<u>7,488,893</u>	<u>8,194,852</u>	
Total Primary Government	<u>\$ 10,803,576</u>	<u>\$ 8,528,145</u>	<u>\$ 367,100</u>
Component Units			
LDFA Island Industrial Park	\$ 225,019	\$	\$
TIFA I Downtown Development Authority	35,256		
TIFA II Enterprise Industrial Park	<u>750</u>		
Total Component Units	<u>\$ 261,025</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				COMPONENT UNITS
	PRIMARY GOVERNMENT				
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL		
\$ 10,000	\$ (506,249) (777,954) (468,118)	\$	\$ (506,249) (777,954) (468,118)	\$	
	(215,319)		(215,319)		
	49,264		49,264		
	(55,834)		(55,834)		
	(222,688)		(222,688)		
	(159,068)		(159,068)		
	(248,324)		(248,324)		
10,000	(2,604,290)		(2,604,290)		
423,645		1,129,604	1,129,604		
\$ 10,000	(2,604,290)	1,129,604	(1,474,686)		
\$				(225,019)	
				(35,256)	
				(750)	
\$				(261,025)	
General Revenues					
Property taxes levied for general purposes	989,194	12,159	1,001,353	976,986	
State shared revenue	482,522		482,522		
Miscellaneous	90,347	44,387	134,734	3,415	
Restricted investment earnings		36,496	36,496		
Unrestricted investment earnings	26,498	30,759	57,257	43,282	
Transfers in (out)	977,021	(927,021)	50,000	(50,000)	
Total General Revenues and Transfers	2,565,582	(803,220)	1,762,362	973,683	
Change in net assets	(38,708)	326,384	287,676	712,658	
NET ASSETS, JULY 1	3,493,959	8,465,073	11,959,032	3,295,694	
RESIDUAL EQUITY TRANSFER	(3,443)	3,443			
PRIOR PERIOD ADJUSTMENTS	22,213	991,089	1,013,302		
NET ASSETS, JUNE 30	\$ 3,474,021	\$ 9,785,989	\$ 13,260,010	\$ 4,008,352	

CITY EATON RAPIDS, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL	MAJOR STREET	LOCAL STREET
ASSETS			
Cash	\$ 458,615	\$ 380,921	\$ 386,935
Investments			31,784
Taxes receivable	27,268		
Due from			
Other funds	29,287		
State	183,884	61,894	14,979
Other			
Lease receivable			
TOTAL ASSETS	<u>\$ 699,054</u>	<u>\$ 442,815</u>	<u>\$ 433,698</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Payables			
Accounts	\$ 50,429	\$ 80,751	\$ 54,587
Payroll and payroll taxes	42,894		
Due to other funds			
Deferred revenue			
TOTAL LIABILITIES	<u>93,323</u>	<u>80,751</u>	<u>54,587</u>
FUND BALANCE			
Reserved for Island project			
Reserved for cemetery perpetual care			
Reserved for fire department			
Unreserved, reported in			
General fund	605,731		
Special revenue funds		362,064	379,111
TOTAL FUND BALANCE	<u>605,731</u>	<u>362,064</u>	<u>379,111</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 699,054</u>	<u>\$ 442,815</u>	<u>\$ 433,698</u>

See accompanying notes to financial statements.

PARKS AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 44,794	\$	\$ 298,849	\$ 1,570,114
47,677			79,461
			27,268
1,450			29,287
574			262,207
	3,275,000		574
			3,275,000
\$ 94,495	\$ 3,275,000	\$ 298,849	\$ 5,243,911

\$ 1,462	\$	\$ 278	\$ 187,507
6,968		2,145	52,007
751			751
	3,275,000		3,275,000
9,181	3,275,000	2,423	3,515,265
20,198			20,198
		122,828	122,828
		142,353	142,353
65,116		31,245	605,731
85,314		296,426	837,536
\$ 94,495	\$ 3,275,000	\$ 298,849	\$ 5,243,911

CITY OF EATON RAPIDS, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balance - governmental funds		\$	1,728,646
Amounts reported for governmental activities in the statement of net assets are different because			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets \$ \$7,259,028 and the accumulated depreciation is \$2,371,101			4,887,927
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.			272,149
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long-term liabilities at year-end consist of:			
Bonds and loan payable	\$	(3,275,000)	
Accrued interest		(52,488)	
Compensated absences		<u>(87,213)</u>	<u>(3,414,701)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		\$	<u>3,474,021</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL	MAJOR STREET	LOCAL STREET
REVENUES			
Taxes and special assessments	\$ 900,869	\$	\$
Licenses and permits	26,142		
Intergovernmental			
State	482,522	274,507	92,593
Federal	10,000		
Charges for services	55,441		
Fines and forfeits	34,569		
Interest and rentals	43,853	6,049	6,515
Other revenues	96,589	17,395	35,208
TOTAL REVENUES	<u>1,649,985</u>	<u>297,951</u>	<u>134,316</u>
EXPENDITURES			
General government	560,762		
Public safety	853,935		
Public works	549,622		
Culture and recreation			
Community development and enrichment	214,649		
Debt service			
Principal retirement			
Interest and fiscal charges			
Other	238,844		
Highways and streets		221,070	113,693
Capital outlay			
TOTAL EXPENDITURES	<u>2,417,812</u>	<u>221,070</u>	<u>113,693</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(767,827)</u>	<u>76,881</u>	<u>20,623</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	723,560		10,000
Operating transfers out	(107,220)	(10,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>616,340</u>	<u>(10,000)</u>	<u>10,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(151,487)</u>	<u>66,881</u>	<u>30,623</u>
FUND BALANCE, JULY 1	735,005	295,183	348,488
RESIDUAL EQUITY TRANSFER OUT			
PRIOR PERIOD ADJUSTMENT	22,213		
FUND BALANCE, JUNE 30	<u>\$ 605,731</u>	<u>\$ 362,064</u>	<u>\$ 379,111</u>

See accompanying notes to financial statements.

PARK AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 88,325	\$	\$	\$ 989,194
			26,142
			849,622
7,140		92,438	10,000
1,295		2,051	155,019
16,336		9,117	34,569
<u>113,096</u>	<u></u>	<u>103,606</u>	<u>174,645</u>
			2,298,954
			560,762
			853,935
115,084			549,622
		670	115,084
			215,319
	125,000		125,000
	160,538		160,538
		92,587	331,431
<u>2,281</u>	<u>29,708</u>	<u></u>	<u>334,763</u>
<u>117,365</u>	<u>315,246</u>	<u>93,257</u>	<u>31,989</u>
			3,278,443
<u>(4,269)</u>	<u>(315,246)</u>	<u>10,349</u>	<u>(979,489)</u>
3,000	231,181	20,000	987,741
<u></u>	<u></u>	<u></u>	<u>(117,220)</u>
3,000	231,181	20,000	870,521
(1,269)	(84,065)	30,349	(108,968)
86,583	84,065	269,520	1,818,844
		(3,443)	(3,443)
<u></u>	<u></u>	<u></u>	<u>22,213</u>
\$ <u>85,314</u>	\$ <u></u>	\$ <u>296,426</u>	\$ <u>1,728,646</u>

CITY OF EATON RAPIDS, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

Net changes in fund balances - total governmental funds	\$ (108,968)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets and work in progress	89,772
Less: current year depreciation	(219,132)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Accrued interest	1,470
Principal payments	125,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in long-term compensated absences	7,174
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Internal service funds are used by management to charge the costs of certain activities to individual funds.

The net (expense) of the internal service funds is reported with governmental activities.

	<u>65,976</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(38,708)</u></u>
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See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 446,601	\$ 142,274
Receivables		
Accounts	765,243	
Other	10,107	
Due from state	557,541	
Due from other funds	12,159	
Note receivable	913	
Inventory	355,506	
TOTAL CURRENT ASSETS	<u>2,148,070</u>	<u>142,274</u>
RESTRICTED ASSETS		
Cash and investments	1,765,450	
Accrued interest	20,485	
TOTAL RESTRICTED ASSETS	<u>1,785,935</u>	
PROPERTY, PLANT AND EQUIPMENT		
Vehicles		185,345
Work in progress	6,335,246	
Water department	5,259,067	
Electric department	5,398,253	
Sewage department	4,808,236	
	21,800,802	185,345
Less: accumulated depreciation	9,525,652	55,470
NET PROPERTY, PLANT AND EQUIPMENT	<u>12,275,150</u>	<u>129,875</u>
OTHER ASSETS		
Note receivable-long-term	21,459	
TOTAL ASSETS	<u>\$ 16,230,614</u>	<u>\$ 272,149</u>

See accompanying notes to financial statements.

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable	\$ 150,000	\$
Notes payable	53,556	
Accounts payable	737,498	
Accrued interest payable	30,248	
Accrued payroll and payroll taxes	36,495	
Accrued sick and vacation	37,484	
Due to state	9,950	
TOTAL CURRENT LIABILITIES	1,055,231	
LONG-TERM LIABILITIES		
Bonds payable	4,974,989	
Notes payable	297,515	
TOTAL LONG-TERM LIABILITIES	5,272,504	
RESTRICTED LIABILITIES		
Refundable meter deposits	116,890	
TOTAL LIABILITIES	6,444,625	
NET ASSETS AND CONTRIBUTED CAPITAL		
CONTRIBUTED CAPITAL (NET OF AMORTIZATION)		
Local	351,584	
Federal	858,760	
State	373,100	
TOTAL CONTRIBUTED CAPITAL	1,583,444	
NET ASSETS		
Reserved for		
Economic development	407,830	
Bond retirement	245,719	
Electric utility	485,404	
Sewer utility	233,417	
Water utility	19,527	
Unrestricted	6,810,648	272,149
TOTAL NET ASSETS	8,202,545	272,149
TOTAL NET ASSETS AND CONTRIBUTED CAPITAL	9,785,989	272,149
TOTAL LIABILITIES AND NET ASSETS	\$ 16,230,614	\$ 272,149

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 8,146,886	\$
Cash received from other funds		540,000
Cash received from penalties	18,511	
Cash received from miscellaneous	25,876	11,443
Payment to suppliers	(5,589,612)	(562,775)
Payments to employees	(983,072)	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,618,589</u>	<u>(11,332)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from note receivable	914	
Interest income	69,650	
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>70,564</u>	
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Residual equity transfer in	3,443	
Operating transfer in (out)	(927,021)	106,500
NET CASH USED IN NON-CAPITAL FINANCING ACITIVIES	<u>(923,578)</u>	<u>106,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Increase in restricted assets	52	
Increase in restricted liabilities	(4,100)	
Receipt of federal grant	66,104	
Decrease in long-term debt	(182,533)	
Bond proceeds	3,210,183	
Interest and fiscal charges	(147,896)	
Work in progress	(5,162,126)	
Purchase of capital assets	(154,267)	(147,519)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,374,583)</u>	<u>(147,519)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,609,008)	(52,351)
CASH AND CASH EQUIVALENTS, JULY 1	<u>2,055,609</u>	<u>194,625</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 446,601</u>	<u>\$ 142,274</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS - Concluded
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 895,043	\$ (40,524)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	499,967	29,192
Changes in assets and liabilities		
Increase in accounts receivable	(47,966)	
Decrease in inventory	9,018	
Increase in accounts payable	248,502	
Increase in accrued payroll	8,688	
Decrease in accrued sick and vacation	(4,248)	
Increase in other liabilities	9,585	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,618,589</u>	<u>\$ (11,332)</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	TRUST AND AGENCY FUND	AGENCY FUND TAX FUND	TOTAL
ASSETS			
Cash	\$ <u>1,050</u>	\$ <u>31,522</u>	\$ <u>32,572</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to local units	\$ 1,050	\$ 827	\$ 1,877
Due to other funds		<u>30,695</u>	<u>30,695</u>
TOTAL LIABILITIES	\$ <u>1,050</u>	\$ <u>31,522</u>	\$ <u>32,572</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	UTILITY FUND	
OPERATING REVENUES		
Charges for services	\$ 8,194,852	\$
Fines and forfeitures	18,511	
Other revenue	<u>25,876</u>	<u>551,443</u>
TOTAL OPERATING REVENUES	<u>8,239,239</u>	<u>551,443</u>
OPERATING EXPENSES		
Personnel services	987,512	
Contractual services	96,216	
Supplies	30,064	
Materials	142,704	
Utilities	154,679	
Telephone	19,939	
Insurance	34,459	
Maintenance	4,956,607	8,184
Benefit payments	360,371	554,591
Other expense	61,678	
Depreciation	<u>499,967</u>	<u>29,192</u>
TOTAL OPERATING EXPENSES	<u>7,344,196</u>	<u>591,967</u>
OPERATING INCOME (LOSS)	<u>895,043</u>	<u>(40,524)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	12,159	
Federal grant	423,645	
Interest earned	67,255	
Interest expense	<u>(144,697)</u>	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>358,362</u>	
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,253,405	(40,524)
OPERATING TRANSFERS		
Operating transfers in (out)	<u>(927,021)</u>	<u>106,500</u>
NET INCOME	326,384	65,976
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018	
NET ASSETS, JULY 1	6,832,611	206,173
RESIDUAL EQUITY TRANSFER IN	3,443	
PRIOR PERIOD ADJUSTMENT	<u>991,089</u>	
NET ASSETS, JUNE 30	<u>\$ 8,202,545</u>	<u>\$ 272,149</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ <u>33,668</u>	\$ <u>142,056</u>	\$ <u>123,125</u>	\$ <u>298,849</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Payables				
Accounts	\$ 278	\$	\$	\$ 278
Accrued payroll	<u>2,145</u>			<u>2,145</u>
TOTAL LIABILITIES	<u>2,423</u>			<u>2,423</u>
FUND BALANCE				
Reserved for cemetery perpetual care			122,828	122,828
Reserved for fire department		142,056	297	142,353
Unreserved	<u>31,245</u>			<u>31,245</u>
TOTAL FUND BALANCE	<u>31,245</u>	<u>142,056</u>	<u>123,125</u>	<u>296,426</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>33,668</u>	\$ <u>142,056</u>	\$ <u>123,125</u>	\$ <u>298,849</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2005

	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
ASSETS				
Cash	\$ 3,148,062	\$ 141,184	\$ 51,342	\$ 3,340,588
Accounts receivable		750		750
Prepaid expense	27,148			27,148
Capital assets (net of accumulated depreciation)	<u>749,964</u>	<u>139,184</u>	<u>219,166</u>	<u>1,108,314</u>
TOTAL ASSETS	<u>\$ 3,925,174</u>	<u>\$ 281,118</u>	<u>\$ 270,508</u>	<u>\$ 4,476,800</u>
LIABILITIES				
Accounts payable	\$ 5,550	\$ 4,069	\$	\$ 9,619
Accrued interest	2,163			2,163
Due to other funds	10,000			10,000
Long-term liabilities				
Portion due within one year	101,007			101,007
Portion due after one year	<u>345,659</u>			<u>345,659</u>
TOTAL LIABILITIES	<u>464,379</u>	<u>4,069</u>		<u>468,448</u>
NET ASSETS				
Reserved for TIFA I		277,049		277,049
Reserved for TIFA II			270,508	270,508
Reserved for State	865,944			865,944
Reserved for debt service	518,122			518,122
Invested in capital assets, net of related debt	<u>349,964</u>			<u>349,964</u>
Unreserved	<u>1,726,765</u>			<u>1,726,765</u>
TOTAL NET ASSETS	<u>3,460,795</u>	<u>277,049</u>	<u>270,508</u>	<u>4,008,352</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,925,174</u>	<u>\$ 281,118</u>	<u>\$ 270,508</u>	<u>\$ 4,476,800</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2005

	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Component Units			
LDFA Island Industrial Park	\$ 225,019	\$	\$
TIFA I Downtown Development Authority	35,256		
TIFA II Enterprise Industrial Park	<u>750</u>	<u></u>	<u></u>
Total Component Units	\$ <u>261,025</u>	\$ <u></u>	\$ <u></u>

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
\$	\$ (225,019)	\$	\$	\$ (225,019)
		(35,256)		(35,256)
			(750)	(750)
\$	(225,019)	(35,256)	(750)	(261,025)
General Revenues				
Property Taxes	885,255	91,731		976,986
Miscellaneous	2,665	750		3,415
Unrestricted investment earnings	40,221		3,061	43,282
Transfers	(50,000)			(50,000)
Total General Revenues and Transfers	878,141	92,481	3,061	973,683
Change in Net Assets	653,122	57,225	2,311	712,658
NET ASSETS, JULY 1	2,807,673	219,824	268,197	3,295,694
NET ASSETS, JUNE 30	\$ 3,460,795	\$ 277,049	\$ 270,508	\$ 4,008,352

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Charges for services	\$ 92,438	\$	\$	\$ 92,438
Interest and rentals	202	1,849		2,051
Other revenues	3,255		5,862	9,117
TOTAL REVENUES	<u>95,895</u>	<u>1,849</u>	<u>5,862</u>	<u>103,606</u>
EXPENDITURES				
Public safety	670			670
Other	91,762		825	92,587
TOTAL EXPENDITURES	<u>92,432</u>		<u>825</u>	<u>93,257</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,463</u>	<u>1,849</u>	<u>5,037</u>	<u>10,349</u>
OTHER FINANCING SOURCES				
Operating transfers in		20,000		20,000
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	3,463	21,849	5,037	30,349
FUND BALANCE, JULY 1	31,225	120,207	118,088	269,520
RESIDUAL EQUITY TRANSFER OUT	<u>(3,443)</u>			<u>(3,443)</u>
FUND BALANCE, JUNE 30	<u>\$ 31,245</u>	<u>\$ 142,056</u>	<u>\$ 123,125</u>	<u>\$ 296,426</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and streets, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general and administrative services.

The accounting policies of the City of Eaton Rapids conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Fiscal Year

In 2003, the City charter was amended to change the City's fiscal year to June 30.

B. Reporting Entity

All funds and account groups under direct control of the City of Eaton Rapids are included in this report. These funds and account groups are those which meet the criteria established by the Governmental Accounting Standards Board (GASB) 14, The Financial Reporting Entity and Statement on Michigan Governmental Accounting and Auditing No. 5.

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Eaton Rapids (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

Discretely Presented Component Units

The TIFA I Downtown Development Authority, TIFA II Enterprise Industrial Park, and LDFA Island Industrial Park of the City of Eaton Rapids, entities legally separate from the City, are governed by a twelve member board appointed by the City Council. For financial reporting purposes, the TIFA I, TIFA II, and LDFA are reported in the component unit column in the combined financial statements. These units are reported in a separate columns to emphasize that they are legally separate from the City.

Blended Component Units

The City of Eaton Rapids council established the City of Eaton Rapids Building Authority under Public Act 31 of Michigan. The three member Authority board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for the City of Eaton Rapids purpose.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Eaton Rapids and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Eaton Rapids is reported separately from certain legally separate component units for which the City of Eaton Rapids, the primary government, is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Eaton Rapids.

The City of Eaton Rapids reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

The Major Street Fund accounts for major street improvements and resurfacing projects.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

The Local Street Fund accounts for local street improvements and resurfacing projects.

The Parks and Recreation Fund accounts for the activities used to run and maintain the community center and parks throughout the City.

The 2004 Building Authority Bond Fund (blended component unit) is used to account for the resources accumulated and payments made for principal and interest payments on these bonds.

The City of Eaton Rapids reports the following major proprietary funds:

The Utility Fund accounts for the activities and operations of the electric plant, water and sewage treatment plant and the sewage pumping stations.

Additionally, the City of Eaton Rapids reports the following fund types:

Internal Service Funds are used to account for Motor Pool Services and Public Employee Benefits provided to other departments on a cost reimbursement basis.

The Cemetery Perpetual Care Fund is used to account for resources legally held in trust to be used for cemetery perpetual care. All resources of the fund, including any earnings on invested resources, may be used to support the organization's activities.

The Ted Oliver Memorial Trust Fund accumulates donations to be spent on future purchases of fire equipment.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Eaton Rapids has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Utility Fund and other functions and segments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Eaton Rapids policy to use restricted resources first. Unrestricted resources are used as they are needed.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued**

E. Receivables

Receivables have been recognized for all significant amounts due the City. Allowances have been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Eaton Rapids as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Equipment	5-20 years
Vehicles	3-10 years
Utility systems	10-40 years
Streets	20-25 years
Bridges	20-25 years
Sidewalks	20-25 years

G. Long-term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

H. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

I. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

J. Restricted Assets

Certain proceeds of the Utility Fund, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

K. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

L. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Not later than the third Monday in June, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to make budgetary transfers between the line items of departments established through this budget, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Debt Service Funds.
6. Budgets for General, Special Revenue and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

The General Fund budget is adopted on an activity level basis, and the Special Revenue Funds budgets are adopted on a total fund level.

M. Investments

Investments are stated at cost, which is equal to market.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded**

N. Inventory

Inventory is valued at the lower of cost (FIFO) or market.

O. Fund Equity Reserves and Designations

Portions of fund equity are segregated for future use and are, therefore, not available for future appropriations or expenditures. Retained earnings and fund balance reserves represent these amounts which are legally, contractually, or otherwise segregated for future use.

Designations of unreserved fund balances in governmental funds indicate the City's tentative plans for use of financial resources in a future period.

NOTE 2: **ACCUMULATED VACATION AND SICK LEAVE**

Accrued vacation and sick leave is recorded as a governmental fund liability at June 30, 2005, to the extent that it is to be liquidated with expendable available financial resources within the current operating cycle.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of 3 days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

The accumulated vacation and sick leave balance as of June 30, 2005 was \$124,697.

NOTE 3: **COMMON CASH ACCOUNT**

Cash resources from individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. The equity in cash and investments of the various funds at June 30, 2005 is as follows:

FUND	COMMON CASH AND CASH EQUIVALENTS	INVESTMENTS CERTIFICATES OF DEPOSIT
General	\$ 458,615	\$
Major	380,921	
Local	386,935	31,784
Act 302	14,790	
Parks and recreation	44,794	47,677
Public improvement	142,056	
Building department	16,802	
Drug law enforcement	2,076	
Utility		
Unrestricted	446,601	1,648,560
Restricted	116,890	

NOTE 3: COMMON CASH ACCOUNT – Continued

FUND	COMMON CASH AND CASH EQUIVALENTS	INVESTMENTS CERTIFICATES OF DEPOSIT
Public employee benefit	\$ 6,705	\$
Motor vehicle pool	135,568	
Summer tax	31,522	
Cemetery perpetual care	122,828	
TIFA I	141,184	
TIFA II	51,343	
LDFA	3,148,062	
Trust and Agency	1,050	
Ted Oliver Memorial Trust	297	
TOTAL	\$ 5,649,039	\$ 1,728,021
Financial statement presentation		
Governmental funds	\$ 1,712,388	\$ 79,461
Proprietary funds	446,601	1,648,560
Fiduciary funds	32,572	
Component units	3,340,588	
Restricted cash		
- customer meter deposits	116,890	
TOTAL	\$ 5,649,039	\$ 1,728,021

Cash and Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper within the three highest rate classifications by at least two rating services, repurchase agreements collateralized by U.S. Government securities, bankers acceptances and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

As of June 30, 2005, the carrying amount and bank balance for each type of deposit and investment account is as follows:

ACCOUNT TYPE	BOOK BALANCE	BANK BALANCE	FDIC INSURED
Cash deposits	\$ 5,648,284	\$ 5,650,193	\$ 200,000
Certificates of deposit	1,728,021	1,728,021	100,000
Petty cash	755		

The City's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the City. Category 1 includes deposits and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name.

NOTE 3: **COMMON CASH ACCOUNT – Concluded**

At June 30, 2005, the City's investments were classified as follows:

Insured	\$ <u>300,000</u>
Uninsured and uncollateralized	\$ <u>7,758,655</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$7,758,655 of the government's bank balance of \$7,378,214 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>7,758,655</u>
--------------------------------	---------------------

NOTE 4: **INTERFUND RECEIVABLES AND PAYABLES**

The following are the interfund receivables and payables at June 30, 2005:

FUND	INTERFUND RECEIVABLE	FUND	INTERFUND PAYABLE
General Fund	\$ <u>10,000</u>	LDFA Industrial Park Fund	\$ <u>10,000</u>
General Fund	<u>751</u>	Park Fund	<u>751</u>
General Fund	18,536		
Utility Fund	<u>12,159</u>	Tax Fund	<u>30,695</u>
	<u>30,695</u>		<u>30,695</u>
TOTALS	\$ <u>41,446</u>	TOTALS	\$ <u>41,446</u>

All interfund loans were made for operating purposes.

NOTE 5: **PROPERTY TAX**

Property taxes become an enforceable lien on the property as of July 1. Taxes are levied on July 1, and payable by August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy 8.6767 mills for general governmental services. A total of 8.6767 mills were levied. The residents of the City have approved an additional .8675 mill for recreation. A total of .9033 mill was levied. The total 2004 levy was for general operating purposes. The residents of the City have approved an additional .1100 mills for wastewater improvements.

NOTE 6: CHANGES IN CAPITAL ASSETS

A summary of changes in governmental capital assets including internal service fund assets are as follows:

	JULY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2005
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 632,818	\$	\$	\$ 632,818
Work in process				
Infrastructure		25,506		25,506
Total capital assets not being depreciated	632,818	25,506		658,324
Capital assets being depreciated				
Buildings	5,027,693			5,027,693
Improvements	668,382			668,382
Vehicles	269,772	147,519		417,291
Machinery and equipment	500,038	47,167		547,205
Books	97,362	18,352		115,714
Infrastructure	9,763			9,763
Total Capital Assets Being Depreciated	6,573,010	213,038		6,786,048
Less: Accumulated depreciation				
Buildings	1,594,972	91,643		1,686,615
Improvements	103,154	22,638		125,792
Vehicles	198,558	56,323		254,881
Machinery and equipment	247,993	57,292		305,285
Books	31,616	19,778		51,394
Infrastructure	1,953	650		2,603
Total Accumulated Depreciation	2,178,246	248,324		2,426,570
Total Capital Assets Being Depreciated - Net	4,394,764	(35,286)		4,359,478
NET CAPITAL ASSETS	\$ 5,027,582	\$(9,780)	\$	\$ 5,017,802

Depreciation expense for governmental activities was \$248,324 for the year ended June 30, 2005.

NOTE 6: **CHANGES IN CAPITAL ASSETS** - Concluded

A summary of the asset activity for the governmental activity component units are as follows:

COMPONENT UNITS	JULY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2005
Land	\$ <u>889,148</u>	\$ <u>219,166</u>	\$ _____	\$ <u>1,108,314</u>

Capital assets for business-type activities have been summarized as follows:

	JULY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2005
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Work in process				
Waste water treatment plant	\$ 182,031	\$ 3,941,977	\$ _____	\$ 4,124,008
Electrical substation and waterwell	<u>1,029,595</u>	<u>1,263,674</u>	_____	<u>2,211,238</u>
Total capital assets not being depreciated	<u>1,211,626</u>	<u>5,205,651</u>	_____	<u>6,335,246</u>
Capital assets being depreciated				
Water	\$ 5,259,067	\$ _____	\$ _____	\$ 5,259,067
Electric	5,272,300	125,953	_____	5,398,253
Sewage	<u>4,779,922</u>	<u>28,314</u>	_____	<u>4,808,236</u>
Total Capital Assets Being Depreciated	<u>15,311,289</u>	<u>154,267</u>	_____	<u>15,465,556</u>
Less: Accumulated depreciation				
Water	2,339,228	146,823	_____	2,486,051
Electric	3,047,530	220,482	_____	3,268,012
Sewage	<u>3,638,927</u>	<u>132,662</u>	_____	<u>3,771,589</u>
Total Accumulated Depreciation	<u>9,025,685</u>	<u>499,967</u>	_____	<u>9,525,652</u>
Total capital assets being depreciated	<u>6,285,604</u>	(<u>345,700</u>)	_____	<u>5,939,904</u>
NET CAPITAL ASSETS	\$ <u>7,497,230</u>	\$ <u>4,859,951</u>	\$ _____	\$ <u>12,275,150</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Water	\$ 146,823
Electric	220,482
Sewage	<u>132,662</u>
	\$ <u>499,967</u>

NOTE 7: **LONG-TERM DEBT OBLIGATIONS**

The changes in long-term debt obligations for the City of Eaton Rapids primary government and component units for the year ended June 30, 2005 are as follows:

	BALANCE, JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2005	DUE WITHIN ONE YEAR
Governmental Activities -				
Primary Government				
\$3,650,000 Building Authority Bonds Series 2004 due in annual installments of \$125,000 to \$275,000 through March, 2022 with interest ranging from 3.50% to 5.20% per annum. The debt requirements will be paid with general operating funds.	\$ <u>3,400,000</u>	\$ (<u>125,000</u>)	3,275,000	\$ <u>125,000</u>
Less: amounts payable within one year			<u>125,000</u>	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT			<u>\$ 3,150,000</u>	
Component Units				
\$975,000 1992 Local Development Finance Authority Bonds due in annual installments of \$75,000 to \$100,000 through December 1, 2009; interest at 6.40% to 6.90%.	\$ 475,000	\$ (75,000)	\$ 400,000	\$ 75,000
\$250,000 1993 CDBG Loan to Michigan Department of Commerce. The loan is due in monthly installments of \$12,414 through February, 2007; interest at 3.00%	<u>73,786</u>	(<u>27,120</u>)	<u>46,666</u>	<u>26,007</u>
TOTAL COMPONENT UNITS	<u>\$ 548,786</u>	<u>\$ (102,120)</u>	446,666	<u>\$ 101,007</u>
Less: amounts payable within on year			(<u>101,007</u>)	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES COMPONENT UNITS			<u>\$ 345,659</u>	

NOTE 7: LONG-TERM DEBT OBLIGATIONS – Continued

	BALANCE, JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2005	DUE WITHIN ONE YEAR
Business-Type Activities				
\$1,475,000 Water Supply System Bonds, Series 1991 due in annual installments of \$85,000 to \$130,000 through November 1, 2011; interest at 6.25% to 6.50%	\$ 830,000	\$(80,000)	\$ 750,000	\$ 85,000
\$1,745,000 Drinking Water Bonds due in annual installments of \$65,000 to \$84,806; interest at 2.50%. The bonds are due in full in April, 2020	1,229,806	(65,000)	1,164,806	65,000
\$358,000 Note payable to Steve Mair for purchase of generator. The note is due in monthly installments of \$4,250 with interest of 7.00% to 8.50%. The note is due in November, 2008	196,452	(37,533)	158,919	40,700
\$200,000 Community Development Block Grant due in quarterly installments of \$5,566 including interest at 5% per annum. The note is due in 2017.		192,152	192,152	12,856
\$9,545,000 WWTP Improvement Bonds due in annual installments of \$395,000 – \$450,000 beginning in 2007; interest at 2.125%. The proceeds of these bonds are on a reimbursement basis. The Wastewater Treatment Plant improvements are still in progress. The total of bond proceeds for the year ended June 30, 2005 was \$3,210,183.		<u>3,210,183</u>	<u>3,210,183</u>	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>2,256,258</u>	\$ <u>3,219,802</u>	5,476,060	\$ <u>203,556</u>
Less: amounts payable within one year			<u>203,556</u>	
TOTAL LONG-TERM OBLIGATIONS BUSINESS-TYPE ACTIVITIES			<u>\$ 5,272,504</u>	

NOTE 7: **LONG-TERM DEBT OBLIGATIONS** - Concluded

Annual debt service requirements to maturity for primary government obligations are as follows:

YEAR ENDING JUNE 30,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTALS	PRINCIPAL	INTEREST	TOTALS
2006	\$ 125,000	\$ 156,162	\$ 281,162	\$ 203,556	\$ 162,676	\$ 366,232
2007	125,000	151,788	276,788	617,373	134,730	752,103
2008	150,000	147,100	297,100	626,470	132,187	758,657
2009	150,000	141,100	291,100	622,027	113,761	735,788
2010	150,000	134,800	284,800	610,696	95,154	705,850
2011-2015	875,000	566,375	1,441,375	2,331,566	224,090	2,555,656
2016-2020	1,150,000	326,025	1,476,025	464,372	38,184	502,556
2021-2025	<u>550,000</u>	<u>42,900</u>	<u>592,900</u>			
	<u>\$ 3,275,000</u>	<u>\$ 1,666,250</u>	<u>\$ 4,941,250</u>	<u>\$ 5,476,060</u>	<u>\$ 900,782</u>	<u>\$ 6,376,842</u>

Annual debt service requirements to maturity for component unit long-term obligations are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTALS
2006	\$ 102,939	\$ 25,441	\$ 128,380
2007	93,727	19,715	113,442
2008	75,000	14,513	89,513
2009	75,000	9,450	84,450
2010	<u>100,000</u>	<u>3,450</u>	<u>103,450</u>
	<u>\$ 446,666</u>	<u>\$ 72,569</u>	<u>\$ 519,235</u>

NOTE 8: **DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945 as amended. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units, and requires a contribution from the employees of 0 - 10 percent of gross wages.

NOTE 8: **DEFINED BENEFIT PENSION PLAN - Concluded**

Annual Pension Cost

For the pension year ended December 31, 2004, the City's annual pension cost of \$225,067 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years. This information from MERS is based on calendar year rather than the City's fiscal year ended.

	MERS FISCAL YEAR ENDED DECEMBER 31,		
	2002	2003	2004
Annual pension cost	\$ 211,580	\$ 215,878	\$ 225,067
Percentage of APC contributed	100%	100%	100%
Net pension obligation			
Actuarial value of assets	3,496,318	4,007,573	4,475,760
Actuarial Accrued Liability	5,588,766	6,420,544	7,345,974
Unfunded AAL	2,092,448	2,412,971	2,870,214
Funded ratio	63%	62%	61%
Covered payroll	2,141,032	2,043,337	2,063,018
UALL as a percentage of covered payroll	102%	118%	139%

NOTE 9: **OPERATING TRANSFERS**

The following are the operating transfers for the year ending June 30, 2005:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Motor Pool	\$ <u>82,500</u>	Utility	\$ <u>82,500</u>
General Fund	<u>673,560</u>	Utility	<u>673,560</u>
Parks and recreation	<u>3,000</u>	General	<u>3,000</u>
General	<u>50,000</u>	Industrial Park	<u>50,000</u>
Local Street	<u>10,000</u>	Major Street	<u>10,000</u>
Public Improvement	<u>20,000</u>	Utility	<u>20,000</u>
Motor Pool	<u>24,000</u>	General	<u>24,000</u>
Debt Service -		Utility	150,961
Building Authority	<u>231,181</u>	General	<u>80,220</u>
Subtotal	<u>231,181</u>	Subtotal	<u>231,181</u>
TOTAL	\$ <u>1,094,241</u>	TOTAL	\$ <u>1,094,241</u>

All interfund transfers were made for operating purposes.

NOTE 10: SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS

	UTILITY FUND	INTERNAL SERVICE FUND
Operating revenues	\$ 8,239,239	\$ 551,443
Depreciation	499,967	29,192
Operating income (loss)	895,043	(40,524)
Operating transfers in (out)	(927,021)	106,500
Net income	326,384	65,976
Property, plant and equipment		
Additions	154,267	147,519
Net working capital	1,091,000	142,274
Total assets	16,095,442	272,149
Total equity	9,650,817	272,149

NOTE 11: AMORTIZATION OF CONTRIBUTED CAPITAL

The City received grants from the state and federal government in 1976-1979 for the purpose of constructing and equipping a waste water treatment plant. The contributions are being amortized over the useful lives of the assets acquired. The City received grants from the state and federal government in 1993 and 1994 for the purpose of constructing water, electric and waste water systems in the Island City Industrial Park. The contributions are being amortized over the useful lives of the assets acquired. Contributed Capital has been combined with Net Assets for the government-wide statements.

NOTE 12: CONTINGENCIES AND LITIGATION

As of June 30, 2005, there were several lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

NOTE 13: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that Cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the City Council.

For the year ended June 30, 2005, the City of Eaton Rapids had the following funds which had expenditures which exceeded the budgets adopted by the City Council:

FUND/FUND TYPE	BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
Administration			
City Council	\$ 26,500	\$ 26,514	\$(14)
General election	10,710	11,312	(602)
Assessor	87,600	88,744	(1,144)
Attorney	197,825	206,463	(8,638)
Police	767,025	779,773	(12,748)
Cemetery	164,810	168,707	(3,897)
Public Works	536,875	549,622	(12,747)
Storm Sewers	23,630	23,975	(345)
Library	205,710	209,131	(3,421)
Local Street	93,000	113,693	(20,693)
Parks and Recreation	91,600	117,365	(25,765)

NOTE 14: **FUND EQUITY RESERVES**

As disclosed in Note 1-O, portions of fund equity are segregated for future use and are, therefore, not available for future appropriation or expenditure. These fund equity reserves as of June 30, 2005 are as follows:

NET ASSETS:

Governmental

Reserved for Fire Department Equipment

This amount reflects the fund balance to be used for fire department equipment.

Reserved for Island Project

This amount represents monies that are to be used for restoration of the City of Eaton Rapids island park.

Reserved for Building Authority

This amount reflects the fund balance reserved for the Public Safety Building and City Hall Building.

Reserved for Perpetual Care

This amount reflects the portion of retained earnings to be used for the Cemetery Perpetual Care.

Reserved for Bond Retirement

This amount reflects the City's savings due to the wholesale interruptible rate savings. These monies are to be used for debt retirement of the Water Supply System Bonds.

Reserved for Water

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the water department.

Reserved for Sewer

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the sewer department.

Reserved for Electric

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the Electric Department.

Reserved for Economic Development

These amounts reflect the portion of retained earnings to be used for future insurance in investment of Magnesium Products.

Component Units

Reserved for TIFA I

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

NOTE 14: **FUND EQUITY RESERVES – Continued**

NET ASSETS: - Concluded:

Component Units - Concluded

Reserved for TIFA II

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

Reserved for the State of Michigan

This amount reflects monies reserved for the State of Michigan for LDFA property taxes.

Reserved for Debt Service

All Debt Service Funds' fund balances are designated by City management to be utilized for future debt service expenditures.

NOTE 15: **WORKERS' COMPENSATION INSURANCE**

The City belongs to the Michigan Municipal Liability and Property Pool for disability worker's compensation insurance.

The Michigan Municipal Liability and Property Pool was established in 1982 under Public Act 138 of 1982, as amended by Public Act 36 of 1988, to develop and administer a group program of liability and property self insurance for Michigan municipalities. The objectives of the Pool are to establish and administer a municipal risk management service, to reduce the incidence of property and casualty losses occurring in the operation of local governmental functions, and to defend members of the Pool against stated liability or loss.

Member contributions are combined to provide each member with coverage for liability and property claims. Any funds not needed to pay claims and maintain prudent reserves will be available for distribution to the members or credit toward future member contributions.

NOTE 16: **FUND BALANCE**

The City had no funds in a deficit position as of June 30, 2005.

NOTE 17: **PRIOR PERIOD ADJUSTMENT**

The following prior period adjustments were made in the General fund:

Record prior year delinquent taxes receivable	\$ <u>22,213</u>
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The following prior period adjustments were made in the Utility fund:

To reclass prior year cost work in progress previously classified in CDGB Special Revenue Fund	\$ <u>991,089</u>
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NOTE 18: RESIDUAL EQUITY TRANSFER

The CDBG Special Revenue Fund balance was transferred to the Utility fund during June 30, 2005 for \$3,443.

NOTE 19: LONG-TERM LEASE

The Building Authority is a party to a long-term lease agreement for rental of the public safety building to the City of Eaton Rapids, Michigan. The lease stipulates that fixed annual rentals will be paid to the Authority by the City of Eaton Rapids, Michigan and such rentals are pledged exclusively for payment of principal and interest on the Building Authority bonds. In addition, the City pledges its unlimited tax, full faith, and credit as security under the lease. Fixed annual rentals will cease after all bonds have been retired and advance rentals repaid on March 1, 2022. The lease agreement provides, further, that after all bonds are retired and advance rentals repaid, title to the land and buildings will vest to the City of Eaton Rapids.

The long-term lease has been accounted for as a capital lease in the debt service fund. The net leasehold receivable represents the present value of future minimum lease payments due from the City. Revenue represented by the non-current portion of the receivable is deferred until it becomes a current receivable. Future minimum lease payments scheduled to be received by the Authority from the City (including unearned finance income of \$1,666,252 are as follows:

YEAR	AMOUNT
2006	\$ 281,163
2007	276,788
2008	297,100
2009	291,100
2010	284,800
2011	278,275
2012	296,600
2013	288,725
2014	280,588
Thereafter	<u>2,366,113</u>
	<u>\$ 4,941,252</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
REVENUES				
Taxes				
Property taxes	\$ 839,100	\$ 839,100	\$ 887,142	\$ 48,042
Penalties and interest			12,641	12,641
Trailer fee	<u>1,000</u>	<u>1,000</u>	<u>1,086</u>	<u>86</u>
Total Taxes	<u>840,100</u>	<u>840,100</u>	<u>900,869</u>	<u>60,769</u>
Licenses and Permits				
Licenses	230	230	300	70
Franchise fees	<u>25,000</u>	<u>25,000</u>	<u>25,842</u>	<u>842</u>
Total Licenses and Permits	<u>25,230</u>	<u>25,230</u>	<u>26,142</u>	<u>912</u>
Intergovernmental				
Federal grant			10,000	10,000
Sales-tax	<u>453,500</u>	<u>453,500</u>	<u>482,522</u>	<u>29,022</u>
Total Intergovernmental	<u>453,500</u>	<u>453,500</u>	<u>492,522</u>	<u>39,022</u>
Charges for Services				
Administrative fees	54,500	54,500	52,699	(1,801)
Video fees	4,500	4,500	2,742	(1,758)
Cemetery sales	<u>22,700</u>	<u>22,700</u>	<u>29,797</u>	<u>7,097</u>
Total Charges for Services	<u>81,700</u>	<u>81,700</u>	<u>85,238</u>	<u>3,538</u>
Fines and Forfeits	<u>47,600</u>	<u>47,600</u>	<u>34,569</u>	<u>(13,031)</u>
Other Revenues				
Interest on investments	29,800	29,800	10,588	(19,212)
Rentals	20,040	20,040	33,265	13,225
Reimbursements	200	200		(200)
Miscellaneous	<u>68,000</u>	<u>68,000</u>	<u>66,792</u>	<u>(1,208)</u>
Total Other Revenues	<u>118,040</u>	<u>118,040</u>	<u>110,645</u>	<u>(7,395)</u>
TOTAL REVENUES	<u>1,566,170</u>	<u>1,566,170</u>	<u>1,649,985</u>	<u>83,815</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
EXPENDITURES				
General Government				
City Council	\$ 31,425	\$ 26,500	\$ 26,514	\$ (14)
City Manager	3,700	1,300	1,255	45
General election	7,500	10,710	11,312	(602)
Assessor	81,585	87,600	88,743	(1,143)
Attorney	80,000	197,825	206,463	(8,638)
Clerk-Treasurer	92,185	94,200	92,870	1,330
Board of review	650	650	525	125
Buildings and grounds	11,500	15,825	15,304	521
Planning commission	3,020	1,645	1,625	20
Zoning board of appeals	800	300	300	
Senior citizens	6,000	6,000	6,000	
City election	4,100	200	150	50
General-allocated	78,750	112,900	109,701	3,199
Total General Government	<u>401,215</u>	<u>555,655</u>	<u>560,762</u>	<u>(5,107)</u>
Public Safety				
Police	767,525	767,025	779,773	(12,748)
Fire	82,860	77,310	74,162	3,148
Total Public Safety	<u>850,385</u>	<u>844,335</u>	<u>853,935</u>	<u>(9,600)</u>
Public Works				
Public services	<u>482,160</u>	<u>536,875</u>	<u>549,622</u>	<u>(12,747)</u>
Community Development and Enrichment				
Library	209,135	205,710	209,131	(3,421)
Other	<u>5,000</u>	<u>5,520</u>	<u>5,518</u>	<u>2</u>
Total Community Development and Enrichment	<u>214,135</u>	<u>211,230</u>	<u>214,649</u>	<u>(3,419)</u>
Other functions				
Cemetery	159,475	164,810	168,707	(3,897)
Storm sewers	20,890	23,630	23,975	(345)
Ambulance	100	100		100
Capital outlay	54,000	46,175	46,162	13
Contingencies	<u>100</u>	<u>100</u>		<u>100</u>
Total Other Functions	<u>234,565</u>	<u>234,815</u>	<u>238,844</u>	<u>(4,029)</u>
TOTAL EXPENDITURES	<u>2,182,460</u>	<u>2,382,910</u>	<u>2,417,812</u>	<u>(34,902)</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Concluded

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>(616,290)</u>	\$ <u>(816,740)</u>	\$ <u>(767,827)</u>	\$ <u>48,913</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	668,290	723,560	723,560	
Operating transfers out	<u>(52,000)</u>	<u>(107,220)</u>	<u>(107,220)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>616,290</u>	<u>616,340</u>	<u>616,340</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(200,400)	(151,487)	48,913
FUND BALANCE, JULY 1	735,005	735,005	735,005	
PRIOR PERIOD ADJUSTMENT			<u>22,213</u>	<u>22,213</u>
FUND BALANCE, JUNE 30	\$ <u><u>735,005</u></u>	\$ <u><u>534,605</u></u>	\$ <u><u>605,731</u></u>	\$ <u><u>71,126</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
State grants	\$ 232,000	\$ 232,000	\$ 274,507	\$ 42,507
Interest on investments	2,500	2,500	6,049	3,549
Miscellaneous			17,395	17,395
TOTAL REVENUES	<u>234,500</u>	<u>234,500</u>	<u>297,951</u>	<u>63,451</u>
EXPENDITURES				
Highways and streets	<u>224,500</u>	<u>224,500</u>	<u>221,070</u>	<u>3,430</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>10,000</u>	<u>10,000</u>	<u>76,881</u>	<u>66,881</u>
OTHER FINANCING USES				
Operating transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			66,881	66,881
FUND BALANCE, JULY 1	<u>295,183</u>	<u>295,183</u>	<u>295,183</u>	
FUND BALANCE, JUNE 30	<u>\$ 295,183</u>	<u>\$ 295,183</u>	<u>\$ 362,064</u>	<u>\$ 66,881</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
State grants	\$ 80,000	\$ 80,000	\$ 92,593	\$ 12,593
Interest on investments	3,000	3,000	6,515	3,515
Miscellaneous			35,208	35,208
TOTAL REVENUES	<u>83,000</u>	<u>83,000</u>	<u>134,316</u>	<u>51,316</u>
EXPENDITURES				
Highways and streets	<u>93,000</u>	<u>93,000</u>	<u>113,693</u>	<u>(20,693)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(10,000)</u>	<u>(10,000)</u>	<u>20,623</u>	<u>30,623</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			30,623	30,623
FUND BALANCE, JULY 1	<u>348,488</u>	<u>348,488</u>	<u>348,488</u>	
FUND BALANCE, JUNE 30	<u>\$ 348,488</u>	<u>\$ 348,488</u>	<u>\$ 379,111</u>	<u>\$ 30,623</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PARKS AND RECREATION FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes	\$ 80,750	\$ 80,750	\$ 88,325	\$ 7,575
Charges for services	5,000	5,000	7,140	2,140
Interest and rent	750	750	1,295	545
Other revenues	<u>2,100</u>	<u>2,100</u>	<u>16,336</u>	<u>14,236</u>
TOTAL REVENUES	<u>88,600</u>	<u>88,600</u>	<u>113,096</u>	<u>24,496</u>
EXPENDITURES				
Culture and recreation	82,800	82,800	115,084	(32,284)
Capital outlay	<u>8,800</u>	<u>8,800</u>	<u>2,281</u>	<u>6,519</u>
TOTAL EXPENDITURES	<u>91,600</u>	<u>91,600</u>	<u>117,365</u>	<u>(25,765)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,000)</u>	<u>(3,000)</u>	<u>(4,269)</u>	<u>(1,269)</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			(1,269)	(1,269)
FUND BALANCE, JULY 1	<u>86,583</u>	<u>86,583</u>	<u>86,583</u>	
FUND BALANCE, JUNE 30	\$ <u><u>86,583</u></u>	\$ <u><u>86,583</u></u>	\$ <u><u>85,314</u></u>	\$ <u><u>(1,269)</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BLENDED COMPONENT UNIT - BUILDING AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Interest earned	\$ _____	\$ _____	\$ _____	\$ _____
EXPENDITURES				
Note principal	125,000	125,000	125,000	
Note interest and fees	160,538	160,538	160,538	
Capital outlay	50,000	81,000	29,708	51,292
TOTAL EXPENDITURES	335,538	366,538	315,246	51,292
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(335,538)	(366,538)	(315,246)	51,292
OTHER FINANCING SOURCES				
Operating transfers in	335,538	396,808	231,181	(165,627)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		30,270	(84,065)	(114,335)
FUND BALANCE, JULY 1	84,065	84,065	84,065	
FUND BALANCE, JUNE 30	\$ 84,065	\$ 114,335	\$ _____	\$ (114,335)

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, building safety and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

BALANCE SHEET

JUNE 30, 2005

ASSETS

Imprest cash	\$	325
Cash and cash equivalents		458,290
Taxes receivable		27,268
Due from other funds		29,287
Due from state		<u>183,884</u>
TOTAL ASSETS	\$	<u><u>699,054</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	50,429
Accrued payroll and payroll taxes		<u>42,894</u>
TOTAL LIABILITIES		<u>93,323</u>

FUND BALANCE

Unreserved and undesignated		<u>605,731</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>699,054</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 840,100	\$ 900,869	\$ 60,769
Licenses and permits	25,230	26,142	912
Intergovernmental			
State	453,500	482,522	29,022
Federal		10,000	10,000
Charges for services	59,000	55,441	(3,559)
Reimbursements	200	433	233
Fines and forfeitures	43,000	34,569	(8,431)
Interest	29,800	10,588	(19,212)
Rentals	20,540	33,265	12,725
Sales	22,300	29,797	7,497
Other	72,500	66,359	(6,141)
TOTAL REVENUES	1,566,170	1,649,985	83,815
EXPENDITURES	2,382,910	2,417,812	(34,902)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(816,740)	(767,827)	48,913
OTHER FINANCING SOURCES (USES)			
Operating transfers in	723,560	723,560	
Operating transfers out	(107,220)	(107,220)	
TOTAL OTHER FINANCING SOURCES (USES)	616,340	616,340	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(200,400)	(151,487)	48,913
FUND BALANCE, JULY 1	735,005	735,005	
PRIOR PERIOD ADJUSTMENT		22,213	22,213
FUND BALANCE, JUNE 30	\$ 534,605	\$ 605,731	\$ 71,126

CITY OF EATON RAPIDS, MICHIGAN
GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

EXPENDITURES	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Administration			
City Council	\$ 26,500	\$ 26,514	\$ (14)
City Manager	1,300	1,255	45
General election	10,710	11,312	(602)
Assessor	87,600	88,744	(1,144)
Attorney	197,825	206,463	(8,638)
Clerk-Treasurer	94,200	92,870	1,330
Board of review	650	525	125
Building and grounds	15,825	15,304	521
Planning commission	1,645	1,625	20
Zoning board of appeals	300	300	
Senior citizens	6,000	6,000	
City election	200	150	50
General - unallocated	112,900	109,700	3,200
Police	767,025	779,773	(12,748)
Cemetery	164,810	168,707	(3,897)
Fire	77,310	74,162	3,148
Public works	536,875	549,622	(12,747)
Storm sewers	23,630	23,975	(345)
Ambulance	100		100
Library	205,710	209,131	(3,421)
Community development	5,520	5,518	2
Contingencies	100		100
Capital outlay	46,175	46,162	13
TOTAL EXPENDITURES	\$ 2,382,910	\$ 2,417,812	\$ (34,902)

NON-MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The non-major Special Revenue Funds in Eaton Rapids are the Act 302 Training, Building Department, Drug Law Enforcement Fund, and CDBG Grant Fund.

CITY OF EATON RAPIDS, MICHIGAN
 COMBINING BALANCE SHEET
 NON- MAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2005

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	CDBG GRANT	TOTALS
ASSETS					
Cash and cash equivalents	\$ <u>14,790</u>	\$ <u>16,802</u>	\$ <u>2,076</u>	\$ <u></u>	\$ <u>33,668</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$	\$ 278	\$	\$	\$ 278
Accrued payroll and taxes	<u></u>	<u>2,145</u>	<u></u>	<u></u>	<u>2,145</u>
TOTAL LIABILITIES	<u></u>	<u>2,423</u>	<u></u>	<u></u>	<u>2,423</u>
FUND BALANCE					
Unreserved and undesignated	<u>14,790</u>	<u>14,379</u>	<u>2,076</u>	<u></u>	<u>31,245</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>14,790</u>	\$ <u>16,802</u>	\$ <u>2,076</u>	\$ <u></u>	\$ <u>33,668</u>

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	CDBG GRANT	TOTALS
REVENUES					
Charges for services	\$	\$ 92,438	\$	\$	\$ 92,438
Interest	196		6		202
Other revenue	<u>2,109</u>		<u>1,146</u>		<u>3,255</u>
TOTAL REVENUES	<u>2,305</u>	<u>92,438</u>	<u>1,152</u>		<u>95,895</u>
EXPENDITURES					
Community development	670				670
Other		<u>91,684</u>	<u>78</u>		<u>91,762</u>
TOTAL EXPENDITURES	<u>670</u>	<u>91,684</u>	<u>78</u>		<u>92,432</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,635</u>	<u>754</u>	<u>1,074</u>		<u>3,463</u>
FUND BALANCE, JULY 1	13,155	13,625	1,002	3,443	31,225
RESIDUAL EQUITY TRANSFER OUT				<u>(3,443)</u>	<u>(3,443)</u>
FUND BALANCE, JUNE 30	<u>\$ 14,790</u>	<u>\$ 14,379</u>	<u>\$ 2,076</u>	<u>\$</u>	<u>\$ 31,245</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ACT 302 TRAINING
FOR THE YEAR ENDED JUNE 30, 2005

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest	\$ 100	\$ 196	\$ 96
Other revenue	<u>1,000</u>	<u>2,109</u>	<u>1,109</u>
TOTAL REVENUES	<u>1,100</u>	<u>2,305</u>	<u>1,205</u>
EXPENDITURES			
Community development	<u>2,700</u>	<u>670</u>	<u>2,030</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,600)	1,635	3,235
FUND BALANCE, JULY 1	<u>13,155</u>	<u>13,155</u>	
FUND BALANCE, JUNE 30	<u>\$ 11,555</u>	<u>\$ 14,790</u>	<u>\$ 3,235</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2005

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for services	\$ <u>82,300</u>	\$ <u>92,438</u>	\$ <u>10,138</u>
EXPENDITURES			
Other	<u>90,100</u>	<u>91,684</u>	<u>(1,584)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,800)	754	8,554
FUND BALANCE, JULY 1	<u>13,625</u>	<u>13,625</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>5,825</u></u>	\$ <u><u>14,379</u></u>	\$ <u><u>8,554</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DRUG LAW ENFORCEMENT
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Fines and forfeitures	\$	\$	\$
Interest	300	1,146 6	1,146 (294)
TOTAL REVENUES	<u>300</u>	<u>1,152</u>	<u>852</u>
EXPENDITURES			
Public safety	<u>300</u>	<u>78</u>	<u>222</u>
EXCESS OF REVENUES OVER EXPENDITURES		1,074	1,074
FUND BALANCE, JULY 1	<u>1,002</u>	<u>1,002</u>	
FUND BALANCE, JUNE 30	\$ <u><u>1,002</u></u>	\$ <u><u>2,076</u></u>	\$ <u><u>1,074</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT BLOCK GRANT
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Fines and forfeitures	\$	\$	\$
Interest			
TOTAL REVENUES			
EXPENDITURES			
Public safety			
EXCESS OF REVENUES OVER EXPENDITURES			
FUND BALANCE, JULY 1	3,443	3,443	
RESIDUAL EQUITY TRANSFER OUT		(3,443)	3,443
FUND BALANCE, JUNE 30	\$ 3,443	\$	\$ 3,443

CAPITAL PROJECTS FUNDS

Capital Projects Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. (Enterprise Fund resources are not included in this category). These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Projects Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose, and further enables them to report to creditors and other grantors of Capital Projects Funds revenue, that their requirement regarding the use of the revenue was fully satisfied.

The Public Improvement Fund operates as a Capital Projects Fund.

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
PUBLIC IMPROVEMENT
JUNE 30, 2005

ASSETS

Cash and cash equivalents

\$ 142,056

LIABILITIES

\$ _____

FUND BALANCE

Reserved for fire

142,056

TOTAL LIABILITIES AND
FUND BALANCE

\$ 142,056

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUBLIC IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Sale of vehicle	\$ 1,000	\$	\$ (1,000)
Interest earned	<u>1,300</u>	<u>1,849</u>	<u>549</u>
TOTAL REVENUES	<u>2,300</u>	<u>1,849</u>	<u>(451)</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>20,000</u>	<u>20,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	22,300	21,849	(451)
FUND BALANCE, JULY 1	<u>120,207</u>	<u>120,207</u>	
FUND BALANCE, JUNE 30	\$ <u><u>142,507</u></u>	\$ <u><u>142,056</u></u>	\$ <u><u>(451)</u></u>

ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The Utility Fund is operated as an Enterprise Fund.

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

BALANCE SHEET

JUNE 30, 2005

ASSETS

CURRENT ASSETS

Imprest cash	\$ 450
Cash and cash equivalents	446,151
Receivables	
Accounts - net of allowance for doubtful accounts of \$7,328 in 2005	765,243
Other	10,107
Due from state	557,541
Note receivable - current portion	913
Due from other funds	12,159
Inventory - at lower of cost or market	355,506
TOTAL CURRENT ASSETS	2,148,070

RESTRICTED ASSETS

Electric utility reserve	
Certificate of deposit	461,647
Accrued interest receivable	3,301
Customer meter deposits	116,890
Sewer reserve	
Certificate of deposit	223,987
Accrued interest receivable	2,106
Bond retirement reserve	
Certificate of deposit	612,587
Accrued interest receivable	11,784
Economic Development Reserve	
Certificate of deposit	350,339
Accrued interest receivable	3,294
TOTAL RESTRICTED ASSETS	1,785,935

PROPERTY, PLANT AND EQUIPMENT

Work in progress	6,335,246
Water department	5,259,067
Electric department	5,398,253
Sewage department	4,808,236
	21,800,802
Less: accumulated depreciation	9,525,652
NET PROPERTY PLANT AND EQUIPMENT	12,275,150

OTHER ASSETS

Note receivable - long-term	21,459
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TOTAL ASSETS	\$ 16,230,614
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Bonds payable	\$ 150,000
Note payable	53,556
Accounts payable	737,498
Accrued interest payable	30,248
Accrued sick and vacation	37,484
Accrued payroll and payroll taxes	36,495
Due to state	9,950

TOTAL CURRENT LIABILITIES

1,055,231

LONG-TERM DEBT

Bond payable	4,974,989
Note payable	297,515

TOTAL LONG-TERM DEBT

5,272,504

RESTRICTED LIABILITIES

Refundable meter deposits	116,890
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TOTAL LIABILITIES

6,444,625

FUND EQUITY

CONTRIBUTED CAPITAL

Local	351,584
Federal - net of amortization of \$2,039,752 in 2005	858,760
State - net of amortization of \$230,177 in 2005	373,100

TOTAL CONTRIBUTED CAPITAL

1,583,444

RETAINED EARNINGS

Reserved for Economic Development	407,830
Reserved for Bond Retirement	245,719
Reserved for Electric Utility	485,404
Reserved for Sewer Utility	233,417
Reserved for Water Utility	19,527
Unreserved	6,810,648

TOTAL RETAINED EARNINGS

8,202,545

TOTAL FUND EQUITY

9,785,989

TOTAL LIABILITIES AND FUND EQUITY

\$ 16,230,614

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 2005

OPERATING REVENUES	
Charges for services	\$ 8,194,852
Fines and forfeitures	18,511
Other revenue	25,876
TOTAL OPERATING REVENUES	<u>8,239,239</u>
OPERATING EXPENSES	
Operating expenses	6,844,229
Depreciation	499,967
TOTAL OPERATING EXPENSES	<u>7,344,196</u>
OPERATING INCOME	<u>895,043</u>
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	12,159
Federal grant	423,645
Interest and fees on bonds	(144,697)
Interest on investments	67,255
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>358,362</u>
NET INCOME BEFORE OPERATING TRANSFERS	1,253,405
OPERATING TRANSFERS OUT	<u>(927,021)</u>
NET INCOME	326,384
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITION AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018
RETAINED EARNINGS, JULY 1	6,832,611
RESIDUAL EQUITY TRANSFER IN	3,443
PRIOR PERIOD ADJUSTMENT	991,089
RETAINED EARNINGS, JUNE 30	<u><u>\$ 8,202,545</u></u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 8,146,886
Cash received from penalties	18,511
Cash received from miscellaneous sources	25,876
Payments to suppliers	(5,589,612)
Payments to employees	(983,072)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,618,589</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from note receivable	914
Interest income	69,650
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>70,564</u>

CASH FLOWS FROM NON-CAPITAL

FINANCING ACTIVITIES

Residual equity transfer in	3,443
Operating transfers out	(927,021)
NET CASH USED IN NON-CAPITAL	
FINANCING ACTIVITIES	<u>(923,578)</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES

Increase in restricted assets	52
Increase in restricted liabilities	(4,100)
Receipt of federal grant	66,104
Decrease in long-term debt	(182,533)
Interest and fiscal charges	(147,896)
Bond proceeds	3,210,183
Work in progress	(5,162,126)
Purchase of capital assets	(154,267)
NET CASH USED IN CAPITAL AND RELATED	
FINANCING ACTIVITIES	<u>(2,374,583)</u>

NET DECREASE IN CASH AND

CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, JULY 1

CASH AND CASH EQUIVALENTS, JUNE 30

2,055,609
<u>\$ 446,601</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY(USED IN) OPERATIONS	
Operating income	\$ 895,043
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation	499,967
Change in assets and liabilities	
Increase in accounts receivable	(47,966)
Decrease in inventory	9,018
Increase in accounts payable	248,502
Increase in accrued payroll	8,688
Decrease accrued sick and vacation	(4,248)
Increase in other liabilities	9,585
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>1,618,589</u></u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
ANALYSIS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	ELECTRIC DEPARTMENT	WATER DEPARTMENT	SEWAGE DEPARTMENT	TOTAL
REVENUES				
Charges for services	\$ 6,777,556	\$ 705,578	\$ 711,718	\$ 8,194,852
Fines and forfeitures	18,511			18,511
Other revenue	<u>20,879</u>	<u>2,690</u>	<u>2,307</u>	<u>25,876</u>
TOTAL REVENUES	<u>6,816,946</u>	<u>708,268</u>	<u>714,025</u>	<u>8,239,239</u>
OPERATING EXPENSES	5,495,903	516,687	831,639	6,844,229
DEPRECIATION	<u>220,482</u>	<u>146,823</u>	<u>132,662</u>	<u>499,967</u>
TOTAL OPERATING EXPENSES	<u>5,716,385</u>	<u>663,510</u>	<u>964,301</u>	<u>7,344,196</u>
OPERATING INCOME (LOSS)	<u>1,100,561</u>	<u>44,758</u>	<u>(250,276)</u>	<u>895,043</u>
NON-OPERATING REVENUES (EXPENSES)				
Property taxes			12,159	12,159
Federal grant	423,645			423,645
Interest and fees on bonds	(18,110)	(89,893)	(36,694)	(144,697)
Interest on investments	<u>60,010</u>	<u>7,245</u>		<u>67,255</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>465,545</u>	<u>(82,648)</u>	<u>(24,535)</u>	<u>358,362</u>
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,566,106	(37,890)	(274,811)	1,253,405
OPERATING TRANSFERS OUT	<u>(927,021)</u>			<u>(927,021)</u>
NET INCOME (LOSS)	<u>\$ 639,085</u>	<u>\$ (37,890)</u>	<u>\$ (274,811)</u>	<u>\$ 326,384</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	ELECTRIC	WATER	SEWAGE	TOTAL
OPERATING EXPENSES				
Personnel services	\$ 345,307	\$ 233,556	\$ 408,649	\$ 987,512
Contractual services	52,886	12,270	31,060	96,216
Supplies	12,853	7,494	9,717	30,064
Materials	24,645	69,326	48,733	142,704
Utilities	5,244	37,466	111,969	154,679
Telephone	13,351	3,259	3,329	19,939
Insurance	17,770	7,188	9,501	34,459
Maintenance	4,838,568	58,529	59,510	4,956,607
Benefit payments	145,735	81,498	133,138	360,371
Other expense	39,544	6,101	16,033	61,678
Depreciation	<u>220,482</u>	<u>146,823</u>	<u>132,662</u>	<u>499,967</u>
TOTAL OPERATING EXPENSES	\$ <u><u>5,716,385</u></u>	\$ <u><u>663,510</u></u>	\$ <u><u>964,301</u></u>	\$ <u><u>7,344,196</u></u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Public Employee Benefit Fund and Motor Vehicle Pool are operated as Internal Service Funds.

CITY OF EATON RAPIDS, MICHIGAN

COMBINING BALANCE SHEET

INTERNAL SERVICE FUNDS

JUNE 30, 2005

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ <u>6,705</u>	\$ <u>135,569</u>	\$ <u>142,274</u>
EQUIPMENT			
Vehicles		185,345	185,345
Less: accumulated depreciation	<u> </u>	<u>55,470</u>	<u>55,470</u>
NET EQUIPMENT	<u> </u>	<u>129,875</u>	<u>129,875</u>
TOTAL ASSETS	\$ <u><u>6,705</u></u>	\$ <u><u>265,444</u></u>	\$ <u><u>272,149</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
FUND EQUITY			
Unreserved	<u>6,705</u>	<u>265,444</u>	<u>272,149</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>6,705</u></u>	\$ <u><u>265,444</u></u>	\$ <u><u>272,149</u></u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
OPERATING REVENUES			
Contributions from other funds	\$ 540,000	\$	\$ 540,000
Other revenue	<u>11,443</u>	<u></u>	<u>11,443</u>
TOTAL OPERATING REVENUES	<u>551,443</u>	<u></u>	<u>551,443</u>
OPERATING EXPENSES			
Repairs and maintenance		8,184	8,184
Depreciation		29,192	29,192
Benefit payments	<u>554,591</u>	<u></u>	<u>554,591</u>
TOTAL OPERATING EXPENSES	<u>554,591</u>	<u>37,376</u>	<u>591,967</u>
OPERATING LOSS BEFORE OPERATING TRANSFERS	(3,148)	(37,376)	(40,524)
OPERATING TRANSFERS IN	<u></u>	<u>106,500</u>	<u>106,500</u>
NET INCOME (LOSS)	(3,148)	69,124	65,976
RETAINED EARNINGS, JULY 1	<u>9,853</u>	<u>196,320</u>	<u>206,173</u>
RETAINED EARNINGS, JUNE 30	\$ <u><u>6,705</u></u>	\$ <u><u>265,444</u></u>	\$ <u><u>272,149</u></u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$ 540,000	\$	\$ 540,000
Cash received from miscellaneous	11,443		11,443
Payment to vendors	<u>(554,591)</u>	<u>(8,184)</u>	<u>(562,775)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(3,148)</u>	<u>(8,184)</u>	<u>(11,332)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in	<u></u>	<u>106,500</u>	<u>106,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u></u>	<u>(147,519)</u>	<u>(147,519)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,148)	(49,203)	(52,351)
CASH AND CASH EQUIVALENTS, JULY 1	<u>9,853</u>	<u>184,772</u>	<u>194,625</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 6,705</u>	<u>\$ 135,569</u>	<u>\$ 142,274</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (3,148)	\$ (37,376)	\$ (40,524)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	<u></u>	<u>29,192</u>	<u>29,192</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (3,148)</u>	<u>\$ (8,184)</u>	<u>\$ (11,332)</u>

PERMANENT FUNDS

The permanent funds exist to account for resources legally held in trust to be used for Cemetery Perpetual Care Fund and the Ted Oliver Memorial Fund.

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2005

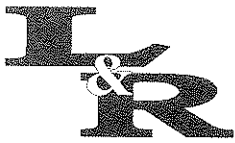
	NONEXPENDABLE TRUST FUND CEMETERY PERPETUAL CARE FUND	NONEXPENDABLE TRUST FUND TED OLIVER MEMORIAL FUND	TOTALS
ASSETS			
Cash and cash equivalents	\$ <u>122,828</u>	\$ <u>297</u>	\$ <u>123,125</u>
FUND BALANCE			
Reserved for perpetual care	\$ 122,828	\$	\$ 122,828
Reserved for fire equipment	<u> </u>	<u>297</u>	<u>297</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>122,828</u>	\$ <u>297</u>	\$ <u>123,125</u>

CITY OF EATON RAPIDS, MICHIGAN
PERMANENT FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	CEMETERY PERPETUAL CARE FUND	TED OLIVER MEMORIAL TRUST FUND	TOTALS
REVENUES			
Perpetual care receipts	\$ <u>5,862</u>	\$ <u></u>	\$ <u>5,862</u>
EXPENDITURES			
Other	<u></u>	<u>825</u>	<u>825</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>5,862</u>	<u>(825)</u>	<u>5,037</u>
FUND BALANCE, JULY 1	<u>116,966</u>	<u>1,122</u>	<u>118,088</u>
FUND BALANCE, JUNE 30	\$ <u><u>122,828</u></u>	\$ <u><u>297</u></u>	\$ <u><u>123,125</u></u>

CITY OF EATON RAPIDS, MICHIGAN
PERMANENT FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	CEMETERY PERPETUAL CARE FUND	TED OLIVER MEMORIAL TRUST FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ <u>5,862</u>	\$ <u>(825)</u>	\$ <u>5,037</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,862	(825)	5,037
CASH AND CASH EQUIVALENTS, JULY 1	<u>116,966</u>	<u>1,122</u>	<u>118,088</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u><u>122,828</u></u>	\$ <u><u>297</u></u>	\$ <u><u>123,125</u></u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have audited the general purpose financial statements of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Eaton Rapids' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether City of Eaton Rapids' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Eaton Rapids in a separate communication dated October 14, 2005.

This report is intended for the information of management of the City of Eaton Rapids and federal awarding pass-through entities. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Layton + Richardson, P.C.

Certified Public Accountants

East Lansing, Michigan
October 14, 2005



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

Compliance

We have audited the compliance of the City of Eaton Rapids, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Eaton Rapids, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Eaton Rapids, Michigan's management. Our responsibility is to express an opinion on the City of Eaton Rapids, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the City of Eaton Rapids, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Eaton Rapids, Michigan's compliance with those requirements.

In our opinion, the City of Eaton Rapids, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

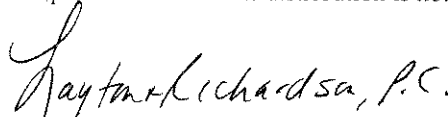
The management of City of Eaton Rapids, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Eaton Rapids, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis is required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the management, the City Council and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

East Lansing, Michigan
October 14, 2005

CITY OF EATON RAPIDS, MICHIGAN
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT PERIOD FROM TO		CURRENT YEAR	
				FEDERAL REVENUES	FEDERAL EXPENDITURES
U.S. Department of Housing and Urban Development Passed-through Michigan Department of Commerce Community Development Block Grant (CDBG)	14.228	10/1/1999	9/3/2005	\$ 423,645	\$ 423,645
Community Development Block Grant Loan				<u>200,000</u>	<u>200,000</u>
				<u>623,645</u>	<u>623,645</u>
Michigan Department of Community Health Local Law Enforcement Block Grant	16.592	10/1/2004	9/30/2005	<u>10,000</u>	<u>10,000</u>
TOTALS				<u>\$ 633,645</u>	<u>\$ 633,645</u>

CITY OF EATON RAPIDS, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a unqualified opinion on the general purpose financial statements of the City of Eaton Rapids.
2. No reportable conditions relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the City of Eaton Rapids were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Eaton Rapids expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City of Eaton Rapids.
7. The programs tested as major programs included: Community Development Block Grant – Small Cities Program CFDA No. 14.228.
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. The City of Eaton Rapids was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.



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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have examined the financial statements of the CITY OF EATON RAPIDS, MICHIGAN the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Eaton Rapids is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Eaton Rapids may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses during the current year's audit.

PRIOR YEAR RECOMMENDATIONS

Utility Receivables

An adjustment had to be made to balance the utilities receivables to the general ledger. We recommend that the utility receivable trial balance be reconciled monthly to the general ledger. This will ensure more accuracy in the utility billing procedures. **This recommendation has not been implemented, but is in the process of being corrected during the current year by reconciling every month.**

Utility Meter Deposits

We noted during our audit that an adjustment needed to be made to balance utility meter deposit accounts. We recommend that this account be reconciled to the general ledger on a monthly basis. This will ensure better accuracy of the utility meter deposits. **This recommendation has not been**

PRIOR YEAR RECOMMENDATIONS – Concluded

Property Taxes

We recommend that the tax fund general ledger be reconciled with property tax software on a monthly basis to ensure that all property tax collections and payments are recorded properly. **Management response: This is currently in the process of being reconciled.**

Payroll

Some authorization forms in the employees files are either for the wrong amount or very old. We recommend authorization forms be filled out each year for all of the employees' payroll deductions. This will provide accurate and adequate records and verify the correct amount is being deducted from the employees' payroll.

Some payroll deduction authorization forms did not have the amount of the deduction authorized written on the form. We recommend the amount of the authorized deduction be written on all authorization forms. This will verify that the correct amount is being deducted from the employees' payroll.

General

The City does not have a written internal control policy. We recommend that the City create a written internal control policy stating that deviation from these policies is a possible firing offense. This will prevent fraud and make everyone aware of the City's policy on fraud. **Management response: This is in the process of being implemented.**

CURRENT YEAR RECOMMENDATIONS

Payroll

During our audit, we noted that some authorization forms were not filled out or signed by the employees themselves. We recommend that all authorization deduction forms be filled out and signed by the employees themselves. We also recommend checking to make sure that the correct exemption information is in the computer for each employee. Additionally, we recommend that FICA payroll rates and wage limits be updated and verified each year. This will ensure that the correct amounts of withholdings are being deducted from the employees' payroll.

We noted an instance where the payroll had been printed over some checks and they were therefore not issued. However, they were not properly voided. We recommend that any check that is not issued should have "VOID" written across it. This will prevent checks from being wrongly issued.

Our audit disclosed that there is no procedure to review the payroll journal prior to printing payroll checks. We recommend that the payroll journal be reviewed by a person independent of the check printing function prior to the printing of checks. This will improve controls over the payroll function.

Utility Billing

During our audit, we noted the same person who creates the utility bills also sends out the bills. We recommend that a person independent of the billing generation process actually send out the bills. They will separate the duties and improve controls in the utility billing system.

Cash Receipts

We noted during our audit that the yellow copy of the voided cash receipts are included with the other yellow copy of the receipts and therefore are not attached to the cash transmittal report. We recommend attaching the yellow copy of voided cash receipts to the cash transmittal sheets. By implementing this recommendation it would not be necessary to go to the actual receipt book to find the yellow copy of the voided cash receipt. It will ensure all source documentation is kept together and will more easily show that the receipts were used in sequential order.

During our audit, we noted that some receipt numbers were used out of order. We recommend using the receipts in sequential order. This will improve controls over cash receipts and help to prevent theft or fraud.

CURRENT YEAR RECOMMENDATIONS – Concluded

Cash Disbursements

We noted during our audit that the same person at City Hall that prepares disbursements also approves invoices for payment. We recommend that the City Manager approve all City Hall invoices (invoices not for the departments) for payment. Implementing this recommendation will separate the approval and payments function and improve controls over cash disbursements.

During our audit, we noted that some invoices were not initialed for approval. We recommend that all invoices be approved before checks are prepared and issued. This will improve controls over cash disbursements and help to prevent fraud.

We noted that some source documents were monthly statements rather than actual invoices. We recommend paying only from original invoice(s). The invoice(s) can be held until a monthly statement is received. The monthly statement can then be attached to the original invoice(s). A check can then be issued to pay the original invoice(s). This will reduce the chance of duplicate payment of the invoice(s) covered by the monthly statement and improve controls over cash disbursements.

We are grateful to the officials and employees of the City of Eaton Rapids for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,

Hayton & Richards, P.C.
Certified Public Accountants

East Lansing, Michigan
October 14, 2005